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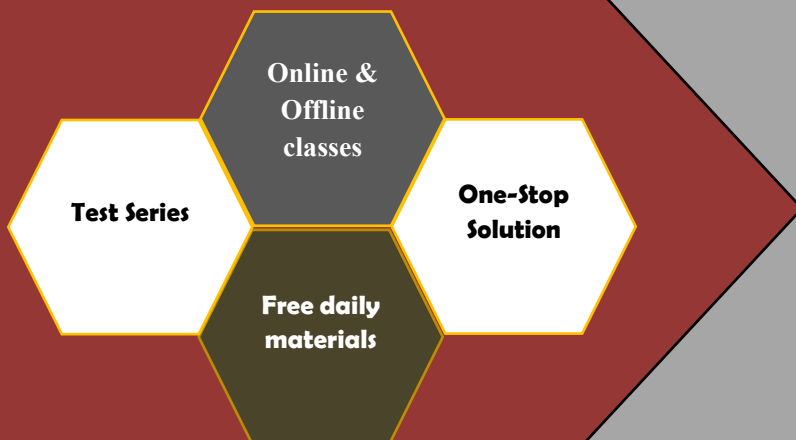
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Masala Bonds

Notes for civil services preparation



UPSC

General Studies

Masala Bonds

- Asian Development Bank (ADB) has listed its 10-year masala bonds worth Rs 850 crore on the global debt listing platform of India INX. The proceeds would be used to support local currency lending and investment in India.

Background:

- **India INX is the country's first international exchange**, located at International Financial Services Centre, GIFT City in Gujarat. ADB's masala bonds are listed on both Luxembourg exchange and India INX.

What are Masala Bonds?

- They are bonds issued outside India by an Indian entity or corporate. These bonds are issued in Indian currency than local currency. Indian corporates usually issue Masala Bonds to raise funds from foreign investors. As it is pegged into Indian currency, if the rupee rates fall, investors bear the risk. **The first Masala bond was issued in 2014 by IFC for the infrastructure projects in India.**

How does Masala Bonds help bond issuer?

- As Masala bonds are issued directly in Indian rupees, the investor needs to bear the exchange rate risks. Rupee rate falls will not affect the issuer of Masala Bonds. In simpler words, as Masala Bonds are rupee-denominated bonds, the risk goes directly to the investor.

Who is eligible to invest in Masala bonds?

- Investors from outside of India who would like to invest in Indian assets can invest in Masala bonds. Indian entities like HDFC, NTPC and Indiabulls Housing have raised funds via Masala Bonds.

What are the benefits of issuing of the Masala Bonds?

- It assists the Indian companies to diversify their bond portfolio. Now Indian companies can issue Masala Bonds in addition to the corporate bonds. It helps the Indian companies to cut down cost. If the company issues any bond in India, it carries an interest rate of 7.5%-9.00% whereas; Masala Bonds outside India is issued below 7.00% interest rate. • It will helps in building up foreign investors confidence in Indian economy and currency which will strengthen the foreign investment in the country. It helps companies to tap a large number of investors as these bonds are issued in the offshore market. • Offshore investor earns better returns by investing in Masala Bonds rather than by investing in his home country. An investor will benefit from his investment in Masala Bond if the rupee appreciates at the time of maturity.